



Introduction to Performance Based Payments (PBP)

Presented by:

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Agenda

- o **What are performance based payments (PBPs)**
- o **What are the advantages**
- o **Selecting PBP events**
- o **Defining the events**
- o **What constitutes completion**
- o **Valuing PBP events**
- o **How Payments are Processed**
- o **Review Key Points**
- o **Questions**

What are PBPs?

Performance Based Payments (PBP) are the Government's preferred method of contract financing for fixed priced contracts.

- Payment is based upon the achievement of specific events that are defined and valued in advance by the parties to the contract.**
- Performance Base Payments focus on performance rather than on incurred costs.**

Performance Based Payments

- **PBPs are used when the contracting officer finds them practical, and the contractor agrees to their use.**
- **PBPs must not be used in conjunction with any other financing methods,**
except that advance payments or guaranteed loans may be used under very limited circumstances
- **Effective planning is the key to success**

Advantages for the Government



- **Enhanced Technical and Schedule Focus**
- **Management Tool for Program Managers and Integrated Product Teams (IPT)**
- **Reduced Oversight and Compliance Costs**

Advantages for the Contractor

- o **Potentially Improved Cash FI**
- o **Reduced Costs of Oversight and Compliance**
- o **Total Management Team Focus on Technical and Schedule Progress**



Selecting Events or Criteria

- **The events that will be used must be identified and agreed upon by both parties**
- **Start by identifying the steps that are necessary for the successful completion of the contract**
- **Each event must be an integral and necessary step in contract performance and it must be identified in the contract**

Selecting Events or Criteria

The FAR lists three bases on which PBPs may be made:

- Performance measured by objective, quantifiable methods;**
- Accomplishment of defined events, or**
- Other quantifiable measures of results.**

Selecting Events or Criteria

An event may be either severable or cumulative

Severable - stand alone

**Cumulative - dependent upon the completion
of a previous event or events**



- o The total number of events will be unique to each contract

Defining the Events

- **Define each event clearly and precisely**
- **Use objective, quantifiable methods of measurement**
- **Identify realistic performance goals as criteria**

Inappropriate Events:

Administrative actions

The passage of time

Incurred costs

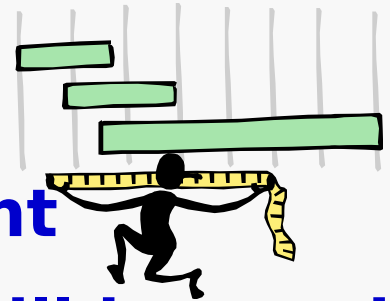
Defining the Events

- **How will the performance criteria be verified?**
- **Who will be verifying completion of the event?**
- **When are these events expected to occur?**
- **What constitutes completion?**

What Constitutes Completion?

Both parties must find and agree upon a means to measure completion

- Have a clear definition of each event
 - Agree on the measurements that will be used
 - Understand exactly what must be accomplished
- in order to qualify for payment**
- State whether the event is cumulative or not



Valuing PBP Events



- **On a contract wide basis,
or on a deliverable item basis**
- **Total amount must not exceed 90% of the
price**
- **Commensurate with the value of the event**
- **Provide an adequate cash flow**
- **Must not be an advance payment**

Valuing PBP Events

- **Can be stated as a dollar amount or as a percentage of the total price**
- **Must be reasonable and consistent with all other technical and cost information in the contractor's proposal**
 - **Expenditure Forecasts can be helpful**



PBP PLAN

CLIN	Event #	Event Type	Description of the event	Accomplishment Expected	Method of Verification	Event Value
0005	8 or 04-8	C Severable (S) Cumulative (C)	Completion of chassis machining (What needs to be done to trigger a payment)	Pre-production prototype chassis machining completed and accepted by contractor	Sign-off by contractor and verification of receipt of completed chassis machining by DCMA	95,000 or 2% of the contract or the line item price

How Payments Are Processed

- **Wide Area WorkFlow - WAWF**
- **PBP can not be submitted more frequently than monthly**
- **More than one event can be listed on a single itemized request**
- **The Contractor's Certification must be a part of every payment request.**

How Payments Are Processed

- **The Administrative Contracting Officer (ACO)**
 - receives the request for payment,
 - certifies the completion of performance events,
 - approves the request for payment,
 - and forwards the request to the payment office
- **DFAS - Payment Office Processes the Payment**
- **Liquidation process (is like Progress Payments)**
 - amount is taken from delivery payments

PPP Form Hauler Reg E 7/2004

1. Payment Office Address

DFAS

2. Contractor Name/Address

Contractor Name

Contractor Street Address

Contractor Street Address

Contractor's City, ST Zip +4

(Area Code) Phone No. & Fax No.

3a. Contract No.:	3b. Order No.:
4. Shipment No.:	
5. Invoice No.:	
6. Invoice Date:	
7. Customer Code:	

8. CLIN	9. ACRN	10. EVENT	11. SN	12. EVENT DESCRIPTION	13. QTY	14. AMOUNT PER EVENT	15. AMOUNT
				To charge the U.S. Government for completion of the following Performance Based Payment Event(s), in accordance with Basic contract			
						16. SUB-TOTAL	

17. CERTIFICATION: I certify to the best of my knowledge and belief that if this proposed performance-based proposal is used and accepted, this proposal and all information hereon prepared from the books and records of the schoolwork, is in accordance with the contract and the instructions of the Contracting Officer. If I cannot be reached by writing at _____, all proposals to subcontractors and suppliers under this contract have been paid, or will be paid, in full, or, if not, I will be responsible for the payment of the same. If there are no subcontractors except as reported in writing at _____, I require the property required or produced here, and all work to be properly stored in, the school which would allow or impair the government's title. If there has been an unauthorized change in the financial condition of the schoolwork since the submission by Contractor to the Government of the most recent written information dated _____, and, if after the making of this proposed performance-based proposal, the consent of all proposals for work deliverable thereon which performance-based proposals have been reported will not exceed any limitation in the contract, and the consent of all proposals under the contract will not exceed any limitation in the contract.

Singer

Rate

18. TOTAL AMOUNT REQUESTED	
ALL PAGES	

**19. AMOUNT APPROVED
FOR PAYMENT**

20. ACO Signature

Date Approved

JOB INFORMATION SUPPLIED ON ATTACHED SCHEDULE



Key Points

o **Good Performance Based Payment Events:**

- **Have clearly defined performance criteria**
- **Use objective, quantifiable measures of results**
- **State what constitutes successful completion**
- **State whether the event is severable or cumulative**
- **Ensure that the event is reasonably valued**

Questions?



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